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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

IS RESIDENTIAL HOUSING BEING OVERBUILT?

IT'S a shame that such a simple question doesn't have a simple answer. It's a question that lurks in the mind of any thoughtful lender. It's a question that troubles many a builder, despite NAHB's perennial goal of a million units, and it is certainly a question that occupies a prime position in the thinking of building material manufacturers and dealers.

The overbuilding of the twenties contributed largely to the real estate debacle of the thirties, and it is this specter of the Great Depression that makes our question loom so ominously against the background of continued high construction volume.

It is true that no simple complete answer exists, but indications are that overbuilding resulting from the present boom will not approach the magnitude it did in the twenties. In the December 1952 Real Estate Trends Bulletin we pointed out that the national construction rate during the 1922-1928 period was 40% higher than the rate achieved during the 1946-1952 period. By rate, we mean the total number of nonfarm dwelling units started per year per 1,000 nonfarm families. In order to equal the rate of construction during the last boom, the building industry would have had to average 1,400,000 nonfarm dwelling units per year during the 1946-1952 period. As we all know, the average has been right at 1,000,000 new units per year.

There is no year-by-year record kept in the United States of the number of new additional dwelling units which are created by the conversion of existing buildings. This can be a very sizable number. In order to harmonize the building figures for the years 1940 to 1950 with the census figures on the number of dwelling units in 1940 and 1950 it is necessary to assume that 1,750,000 new dwelling units were created in this period by the alteration of existing structures. This estimate was made after very careful study by the Bureau of Labor Statistics on the basis of spot surveys which it made in several cities. In addition, during the same period the Bureau of Labor Statistics estimates an additional increase of 300,000 families was taken care of in trailers. All in all, it was necessary for the Bureau of Labor Statistics to add approximately 4,000,000 to the number of dwelling units reported in the new construction totals to harmonize the 1950 census figures with those from the 1940 census.

(cont. on page 208)

**RATE OF RESIDENTIAL CONSTRUCTION DURING 1922-1928 PERIOD COMPARED WITH
RATE DURING 1946-1952 PERIOD IN MAJOR METROPOLITAN AREAS**

Metropolitan area	Average rate 1922-1928	Rank	Average rate 1946-1952	Rank	Percentage difference (+ or -)
Akron, Ohio	24.7	67	17.5	90	-29.1
Albany, N. Y.	15.6	107	10.9	126	-30.1
Allentown, Pa.	16.7	100	14.6	108	-12.6
Altoona, Pa.	14.0	113	4.9	139	-65.0
Amarillo, Tex.	*	*	102.6	2	*
Asheville, N. C.	45.9	16	21.0	70	-54.3
Atlanta, Ga.	43.0	23	22.3	55	-48.1
Atlantic City, N. J.	32.6	43	25.4	48	-22.1
Augusta, Ga.	14.5	110	18.7	84	+29.0
Austin, Tex.	*	*	85.1	3	*
Baltimore, Md.	21.7	80	23.0	54	+6.0
Beaumont, Tex.	*	*	27.8	45	*
Binghamton, N. Y.	20.9	83	7.2	133	-65.6
Birmingham, Ala.	48.2	15	28.1	41	-41.8
Boston, Mass.	24.3	68	17.5	91	-28.0
Bridgeport, Conn.	7.6	129	23.7	53	+211.8
Buffalo, N. Y.	25.2	65	20.1	76	-20.2
Canton, Ohio	32.3	46	11.6	122	-64.1
Cedar Rapids, Iowa	21.4	81	24.8	49	+15.9
Charleston, S. C.	3.7	130	2.6	140	-29.7
Charleston, W. Va.	22.9	73	21.9	58	-4.4
Charlotte, N. C.	50.5	12	59.3	9	+17.4
Chattanooga, Tenn.	20.5	84	11.6	123	-43.4
Chicago, Ill.	38.6	29	14.6	107	-62.2
Cincinnati, Ohio	19.3	91	16.3	100	-15.6
Cleveland, Ohio	28.1	58	21.6	62	-23.1
Columbia, S. C.	18.2	96	29.8	35	+63.7
Columbus, Ga.	21.9	78	20.1	75	-8.2
Columbus, Ohio	37.0	33	24.5	52	-33.8
Corpus Christi, Tex.	57.0	7	69.9	4	+22.6
Dallas, Tex.	53.7	8	65.7	5	+22.3
Davenport, Iowa	11.9	122	17.4	92	+46.2
Dayton, Ohio	18.3	95	12.9	114	-29.5
Decatur, Ill.	36.7	35	12.5	115	-66.0
Denver, Colo.	33.9	39	48.8	21	+44.0
Des Moines, Iowa	23.6	72	21.2	67	-10.2
Detroit, Mich.	58.6	6	28.0	42	-52.2
Duluth, Minn.	19.7	88	12.2	117	-38.1
Durham, N. C.	*	*	28.0	43	*
El Paso, Tex.	12.4	119	38.4	26	+209.7
Erie, Pa.	20.2	85	20.0	78	-1.0
Evansville, Ind.	19.9	87	13.1	113	-34.2
Fall River-New Bedford, Mass.	15.5	108	11.1	125	-28.4
Flint, Mich.	53.3	10	22.1	56	-58.5
Fort Wayne, Ind.	37.6	32	20.0	77	-46.8
Fort Worth, Tex.	52.2	11	65.6	6	+25.7
Fresno, Calif.	*	*	46.3	22	*
Galveston, Tex.	17.1	97	28.0	44	+63.7
Grand Rapids, Mich.	29.7	54	25.9	47	-12.8
Greensboro, N. C.	*	*	61.8	7	*
Hamilton, Ohio	25.9	61	21.6	63	-16.6
Harrisburg, Pa.	18.7	94	19.4	82	+3.7
Hartford, Conn.	38.1	31	24.7	50	-35.2
Houston, Tex.	60.1	5	57.7	14	-4.0
Huntington, W. Va.	38.5	30	20.5	71	-46.8
Indianapolis, Ind.	30.3	52	15.8	102	-47.9
Jackson, Miss.	*	*	51.8	17	*
Jacksonville, Fla.	42.8	24	49.7	20	+16.1
Johnstown, Pa.	*	*	10.2	127	*
Kalamazoo, Mich.	14.2	112	5.9	137	-58.5
Kansas City, Mo.	34.7	38	20.5	72	-40.9
Knoxville, Tenn.	35.1	37	20.4	74	-41.9
Lancaster, Pa.	17.0	99	15.4	104	-9.4
Lansing, Mich.	33.0	41	17.6	89	-46.7
Lincoln, Nebr.	24.0	69	35.0	28	+45.8
Little Rock, Ark.	36.2	36	32.4	31	-10.5
Los Angeles, Calif.	95.1	2	58.7	12	-38.3
Louisville, Ky.	27.6	59	15.0	105	-45.7
Lowell, Mass.	10.8	126	12.0	118	+11.1
Macon, Ga.	15.6	106	9.2	129	-41.0

*Not available.

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**RATE OF RESIDENTIAL CONSTRUCTION DURING 1922-1928 PERIOD COMPARED WITH
RATE DURING 1946-1952 PERIOD IN MAJOR METROPOLITAN AREAS**

Metropolitan area	Average rate 1922-1928	Rank	Average rate 1946-1952	Rank	Percentage difference (+ or -)
Madison, Wis.	40.2	26	29.8	34	-25.9
Manchester, N. H.	13.0	117	19.5	81	+50.0
Memphis, Tenn.	32.9	42	42.1	24	+28.0
Miami, Fla.	225.9	1	139.1	1	-38.4
Milwaukee, Wis.	25.8	64	21.7	59	-15.9
Minneapolis, Minn.	28.9	55	17.4	93	-39.8
Mobile, Ala.	14.4	111	24.6	51	+70.8
Montgomery, Ala.	13.3	116	43.8	23	+229.3
Nashville, Tenn.	17.1	98	15.5	103	-9.4
New Haven, Conn.	19.7	89	21.2	66	+7.6
New Orleans, La.	22.8	74	21.6	60	-5.3
New York, N. Y.	32.0	47	19.8	80	-38.1
Norfolk, Va.	13.5	114	21.1	68	+56.3
Oklahoma City, Okla.	38.8	27	29.0	38	-25.3
Omaha, Nebr.	23.9	71	17.0	96	-28.9
Peoria, Ill.	15.8	104	11.7	120	-26.0
Philadelphia, Pa.	21.3	82	17.3	95	-18.8
Phoenix, Ariz.	45.7	17	38.3	27	-16.2
Pittsburgh, Pa.	16.1	103	16.4	99	+1.9
Portland, Maine	12.0	121	8.8	131	-26.7
Portland, Oreg.	44.1	21	17.0	97	-61.5
Providence, R. I.	31.1	50	14.5	109	-53.4
Pueblo, Colo.	24.0	70	33.2	30	+38.3
Racine-Kenosha, Wis.	25.8	62	21.0	69	-18.6
Reading, Pa.	11.5	125	7.9	132	-31.3
Richmond, Va.	30.7	51	18.1	88	-41.1
Roanoke, Va.	33.8	40	30.9	33	-8.6
Rochester, N. Y.	26.2	60	20.5	73	-21.8
Rockford, Ill.	31.6	49	18.5	85	-41.5
Sacramento, Calif.	50.3	13	31.3	32	-37.8
Saginaw, Mich.	14.5	109	14.5	110	0.0
St. Joseph, Mo.	9.1	128	6.6	136	-27.5
St. Louis, Mo.	25.8	63	19.9	79	-22.9
Salt Lake City, Utah	28.2	57	29.4	37	+4.3
San Antonio, Tex.	36.7	34	52.2	15	+42.2
San Diego, Calif.	75.1	3	51.9	16	-30.9
San Francisco, Calif.	44.6	20	28.4	40	-36.3
San Jose, Calif.	30.0	53	59.1	10	+97.0
Savannah, Ga.	12.0	120	17.4	94	+45.0
Scranton, Pa.	13.4	115	9.3	128	-30.6
Seattle, Wash.	38.7	28	16.4	98	-57.6
Shreveport, La.	53.4	9	50.4	19	-5.6
Sioux City, Iowa	24.8	66	16.2	101	-34.7
South Bend, Ind.	45.0	18	28.5	39	-36.7
Spokane, Wash.	16.4	102	38.4	25	+134.1
Springfield, Ill.	21.8	79	13.5	112	-38.1
Springfield, Mass.	32.6	44	21.4	65	-34.4
Springfield, Mo.	*	*	26.8	46	*
Springfield, Ohio	15.7	105	12.3	116	-21.7
Stockton, Calif.	32.6	45	29.7	36	-8.9
Syracuse, N. Y.	22.6	75	9.1	130	-59.7
Tacoma, Wash.	31.9	48	21.5	64	-32.6
Tampa, Fla.	73.2	4	58.3	13	-20.4
Terre Haute, Ind.	12.7	118	6.8	134	-46.5
Toledo, Ohio	19.3	90	11.5	124	-40.4
Topeka, Kans.	22.3	77	22.0	57	-1.4
Trenton, N. J.	18.9	92	13.7	111	-27.5
Tulsa, Okla.	48.5	14	18.1	87	-62.7
Utica, N. Y.	18.7	93	5.4	138	-71.1
Waco, Tex.	*	*	59.0	11	*
Washington, D. C.	43.2	22	60.1	8	+39.1
Waterbury, Conn.	19.9	86	18.1	86	-9.1
Waterloo, Iowa	11.8	124	21.6	61	+83.1
Wheeling, W. Va.	16.5	101	6.8	135	-58.8
Wichita, Kans.	41.6	25	50.8	18	+22.1
Wilmington, Del.	10.5	127	11.6	121	+10.5
Winston-Salem, N. C.	44.7	19	34.1	29	-23.7
Worcester, Mass.	22.5	76	19.0	83	-15.6
York, Pa.	11.9	123	11.8	119	-1.0
Youngstown, Ohio	28.5	56	14.7	106	-48.4

*Not available.

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IS RESIDENTIAL HOUSING BEING OVERBUILT?

(cont. from page 205)

This, however, is only part of the picture. To begin with, we have been talking so far about national construction activity and overbuilding on a national scale. Actually, the local situation is more important. Because of the immobility of our housing supply, local shortages and surpluses of housing must be slowly corrected by local conditions. So, if a surplus exists in one area and a shortage exists in another, there is no way of correcting one by balancing it off against the other. Each condition must be corrected by factors working within the affected area.

In order to compare the amount of new building during this boom with the amount during the overbuilding boom of the twenties, we have prepared the table on pages 206 and 207. In this table we show the average rate of new construction in major metropolitan areas during the 1922-1928 period compared with the average rate during the 1946-1952 period. In three-fourths of these areas the rate of new construction during the present boom has been less than the rate during the boom of the twenties. In the remaining 25%, the present new construction rate has exceeded the rate during the last boom, sometimes by a sizable margin.

The information in this table should not be taken as complete evidence that an area is not overbuilt, or is in danger of becoming overbuilt. It should be weighed against knowledge of local conditions that existed during the twenties and that exist today. It should also be viewed in the light of the severity of the 1930 real estate depression in the area in question. The type of residential units built should also be considered. For example, there would undoubtedly be a higher vacancy rate in multifamily rental units than would be found in single-family homes. Then, again, the occupants of multifamily rental units would probably be more willing to double up than would the owners of single-family homes.

It would also be well to get some idea of the number of additional dwelling units which have been created by the conversion of older existing buildings. As any city grows there will be many buildings, generally fairly close to the central part of the city, designed originally for one-family occupancy, which are later occupied by a number of families. A trip through the older part of any city will show hundreds of buildings of this type.

When a city is young there are relatively few buildings which can be converted to multifamily use, but as a city matures, the number of conversions will increase at a more rapid rate. Undoubtedly, there were many more conversions in the period from 1940 to 1950 than there were in the period from 1920 to 1930, and this probably had some effect in the lower rate of new building in the recent past in comparison with the rates which were current in the boom of the twenties.

You will notice that in the table we have ranked the areas in the order of their construction rate in both booms. The five maps on page 209 show the locations of the cities that were in the highest one-fifth, next highest one-fifth, middle one-fifth, next lowest one-fifth, and lowest one-fifth of construction

RESIDENTIAL CONSTRUCTION RATE BOOM OF THE 1920'S COMPARED TO THE PRESENT BOOM

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HIGHEST ONE-FIFTH OF CONSTRUCTION ACTIVITY



LEGEND

- 1946 - 1952
- 1922 - 1928

● AREA IN SAME FIFTH BRACKET
DURING BOTH BOOMS

NEXT HIGHEST ONE-FIFTH OF CONSTRUCTION ACTIVITY



MIDDLE ONE-FIFTH OF CONSTRUCTION ACTIVITY



NEXT LOWEST ONE-FIFTH OF CONSTRUCTION ACTIVITY



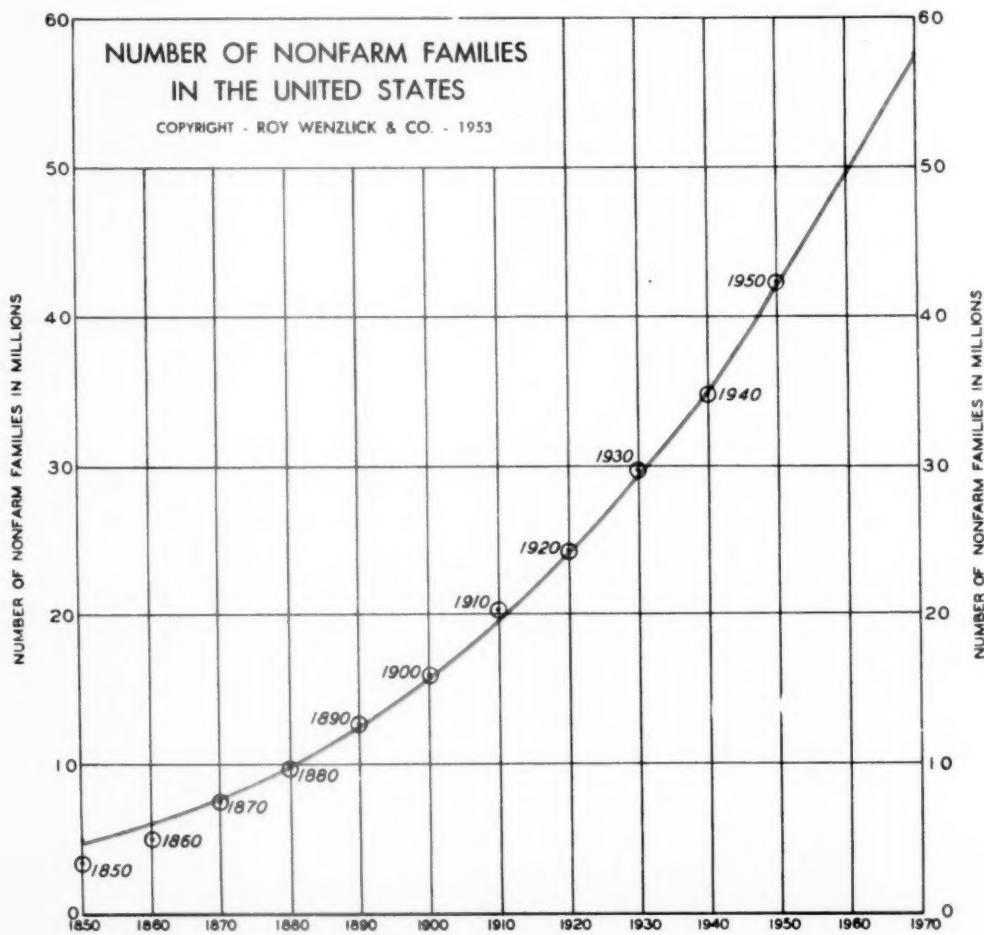
LOWEST ONE-FIFTH OF CONSTRUCTION ACTIVITY



activity during the two booms. The red dots indicate the 1922-1928 boom, and the blue dots indicate the present boom. Whenever two dots are circled it means that the area was in the same 20% bracket (or fifth) during both booms.

It will be found by looking at these maps that the areas with the highest activity during the present boom also had the highest activity during the last boom. In the same manner, those areas with the poorest activity in the twenties for the most part had the poorest activity in the forties and fifties. In other words, when a city starts a construction boom, it usually has another one during the next up-swing. Conversely, when the activity is low during one boom it frequently stays low during the next.

The chart below shows the projection of nonfarm families in the United States by 1970. This projection is made by using a Pearl's logistic curve. It indicates that by 1970 there will be a gain of roughly 15 million nonfarm families in the United States. This leads to the conclusion that an average of 750,000 families will be formed each year during the next 20-year period. Based on this estimate, an average demand of 750,000 units per year from this source alone seems



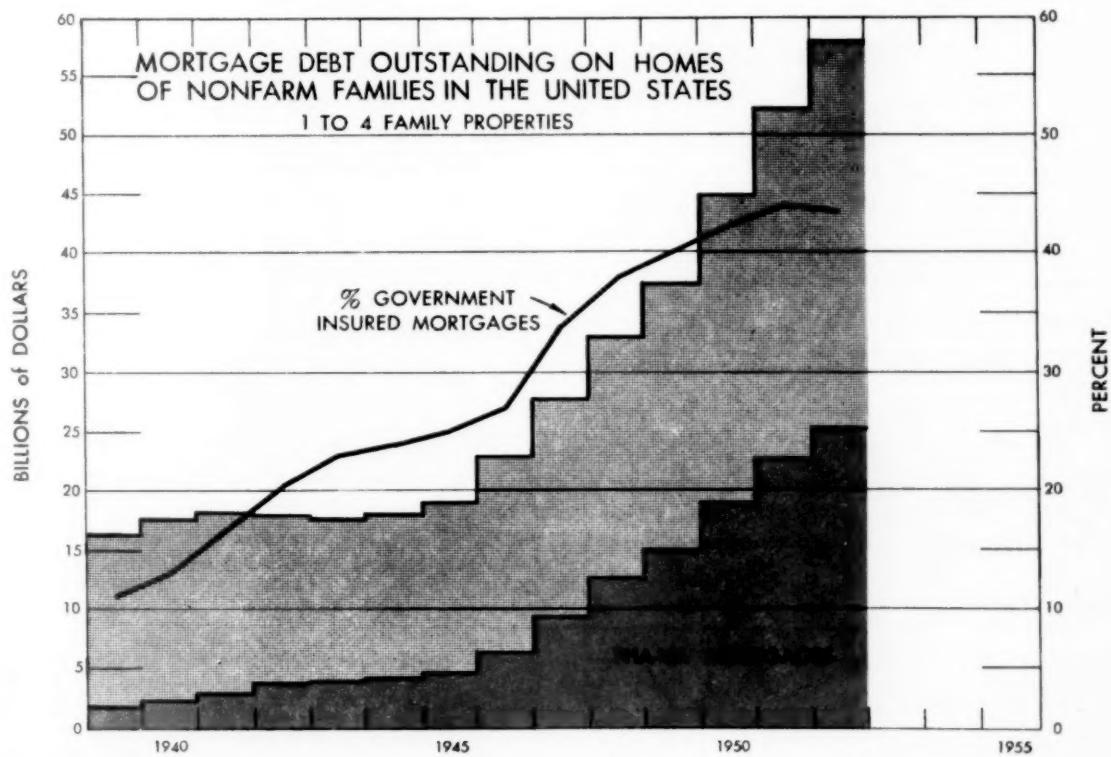
reasonable. Of course, there will be one or two downswings in the building cycle before 1970, and some areas will be seriously overbuilt. Over the long pull, however, the outlook is for continued high levels of building and real estate activity.

MORTGAGE DEBT OUTSTANDING ON HOMES OF NONFARM FAMILIES IN THE UNITED STATES

THE chart below shows the billions of dollars of mortgage debt outstanding from 1939 through 1952 on the homes of nonfarm families in the United States. It will be noticed that at the end of 1952 this mortgage indebtedness ran approximately \$58 billion.

The solid line on this chart shows the percentage of the total amount in government-insured mortgages. The too low interest rates on insured mortgages (which have just been raised) are responsible for the drop in the percentage of insured mortgages in 1952. The year 1953 will probably show some increase in the percentage, as VA's and FHA's are now relatively more attractive.

Dollar mortgage indebtedness, however, will probably not increase in 1954 by as much as it has during the past few years, as the real estate inflation seems to have been stopped.



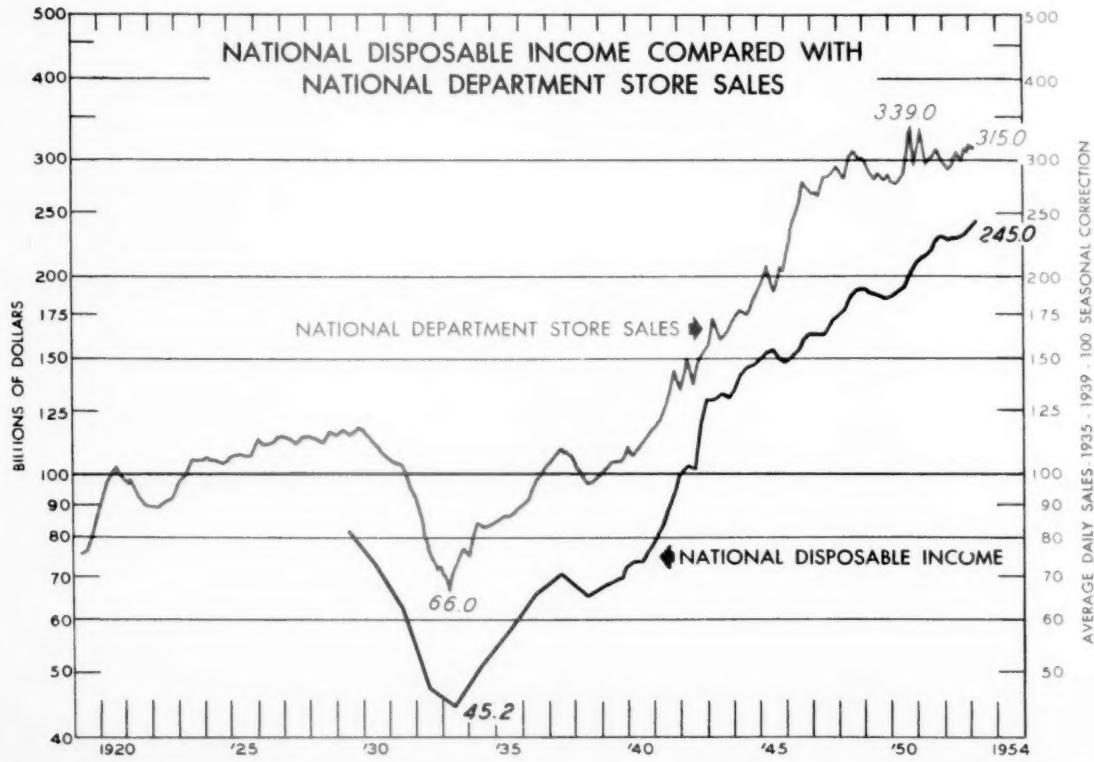
DEPARTMENT STORE SALES REMAIN HIGH

THE chart below shows national department store sales in comparison with national disposable income. Over a long period of years these two lines go up and down together. Variations in the fluctuations are caused by wars, which for a period increase disposable income at a time when many types of semidurable goods are not available. In the period that follows, sales go higher than would otherwise be expected from the amount of disposable income, as individuals buy the things which they could not get during the period of scarcity.

On pages 213 through 220 we show the trend in department store sales (and, indirectly, the trend in all retail sales) in 80 principal cities. The red line on each chart is the national average, while the trend in each city is shown by the blue line.

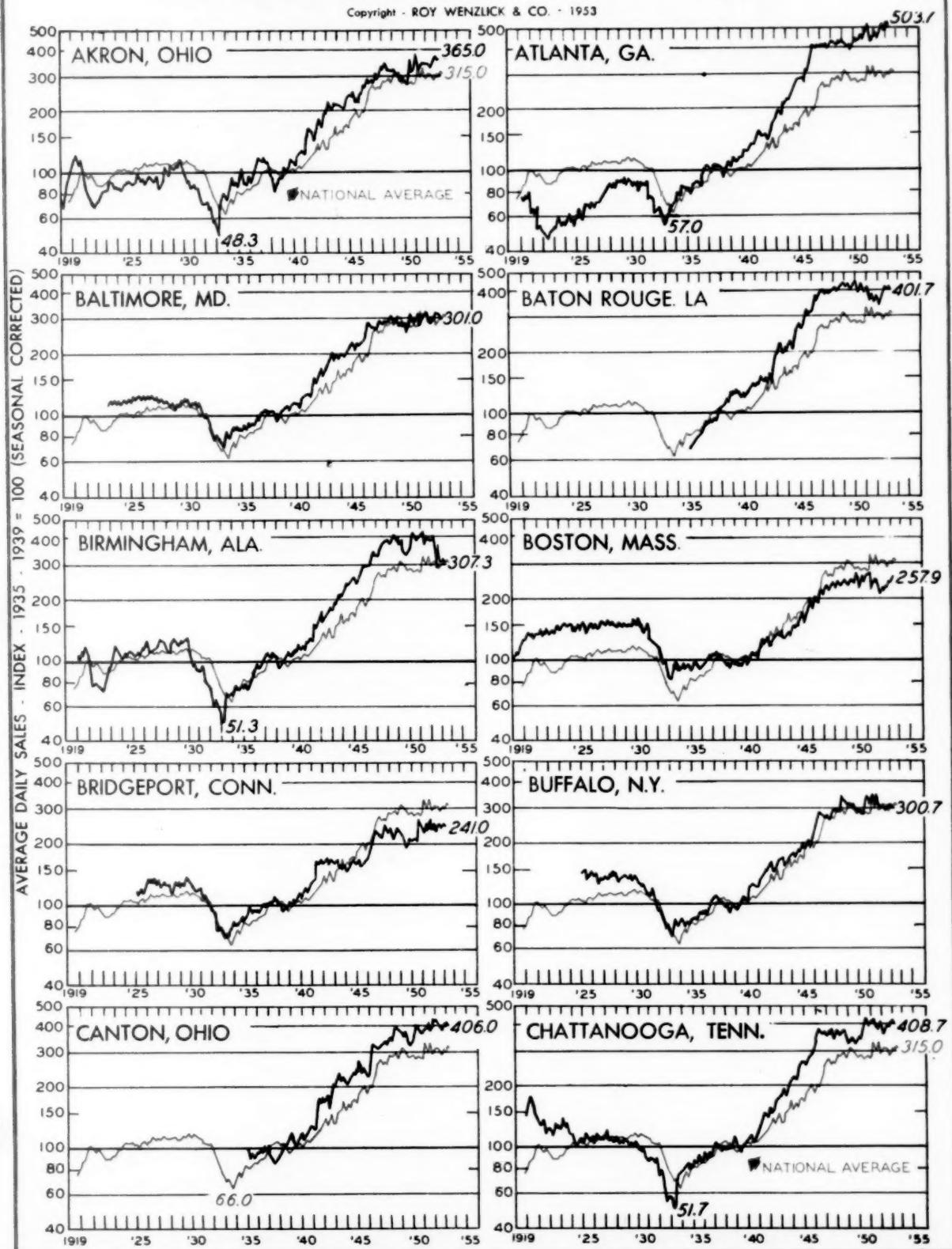
The figures for these charts are taken from the indexes published by the Federal Reserve Banks, and are adjusted to correct for seasonal fluctuations. This correction for seasonal fluctuations makes possible a far better study of the trends than is possible with uncorrected figures.

As a rule, the cities where department store sales are the highest above the average are in the West and South. In most cases, matured cities have not shown the increase shown in newer cities.



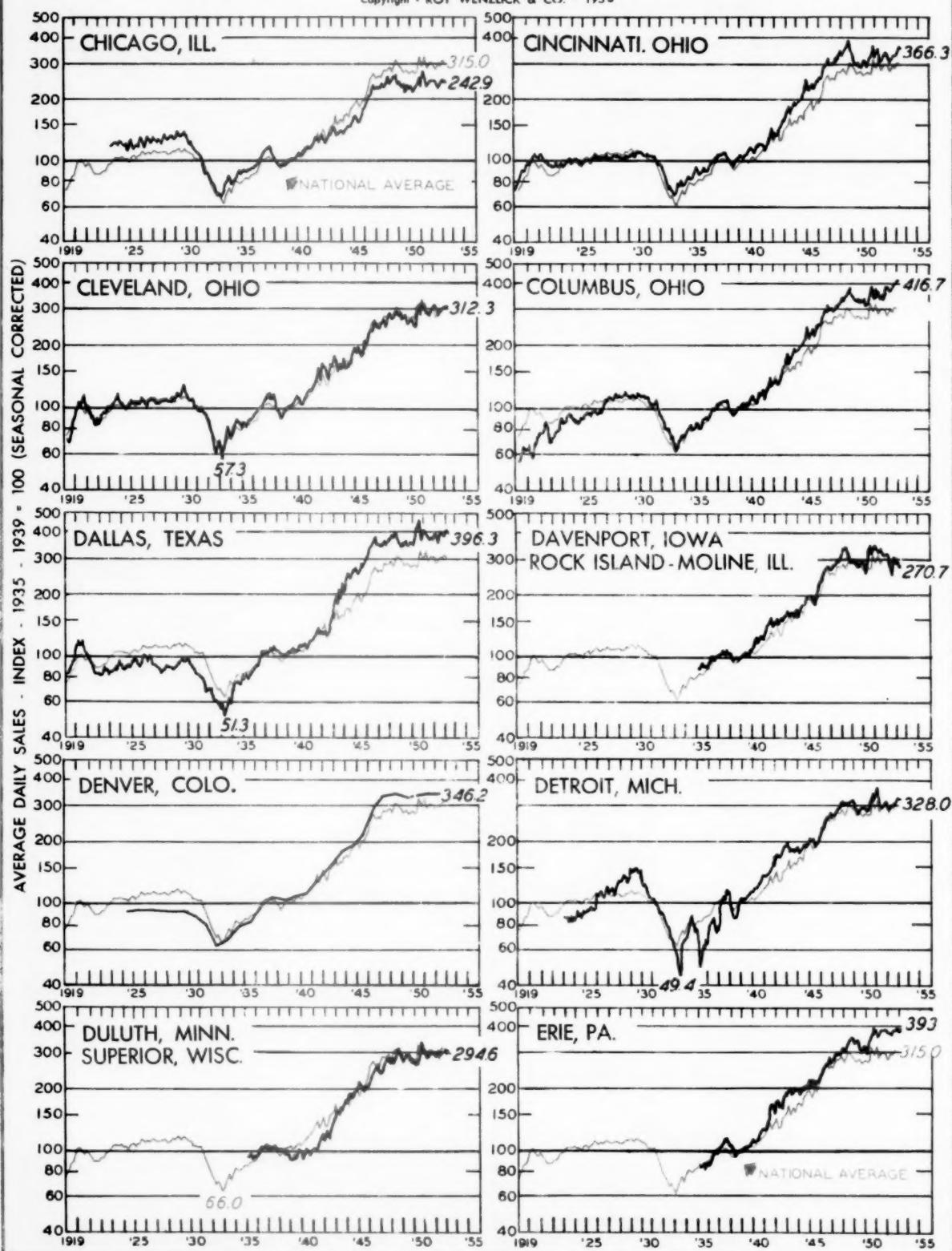
DEPARTMENT STORE SALES IN PRINCIPAL CITIES

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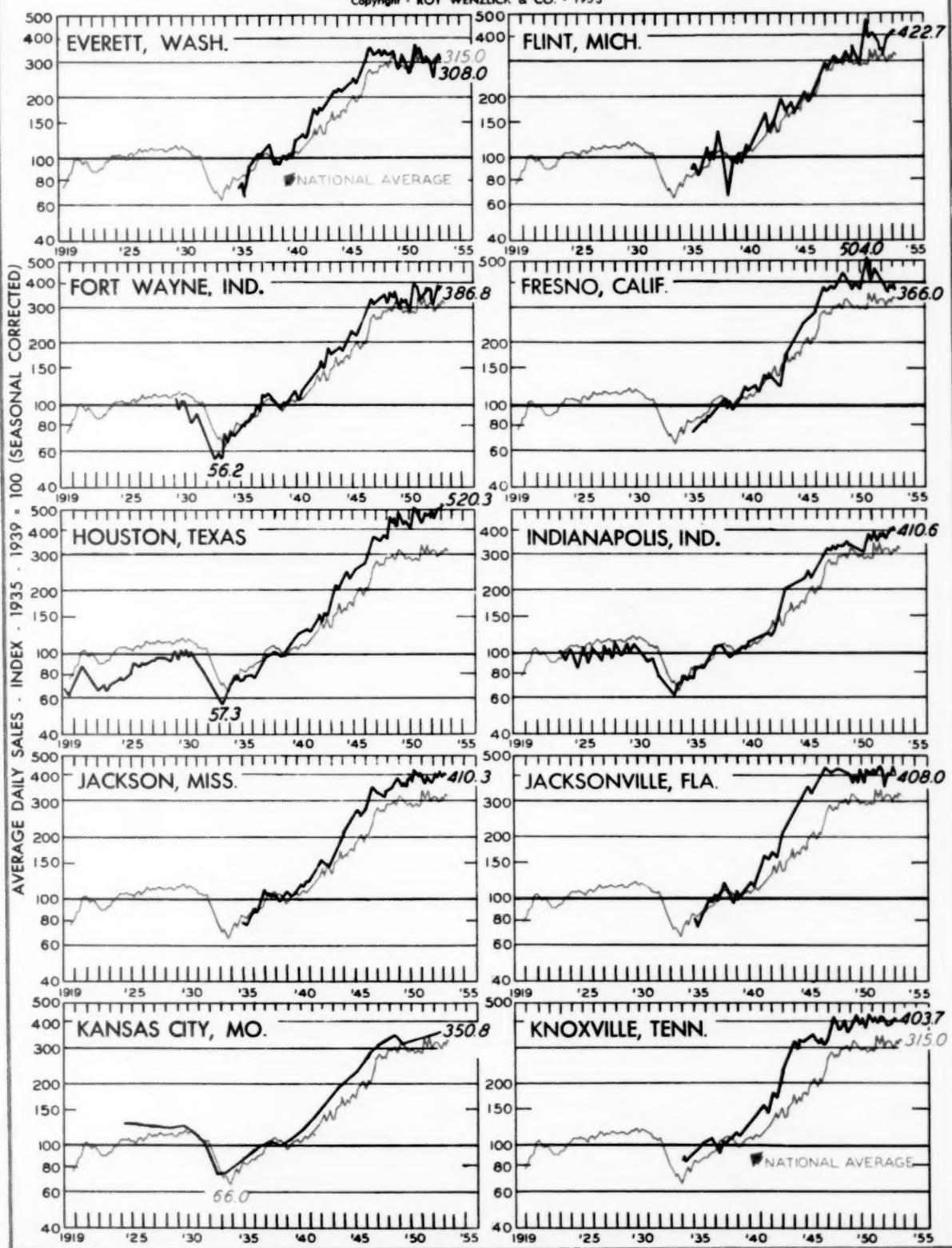
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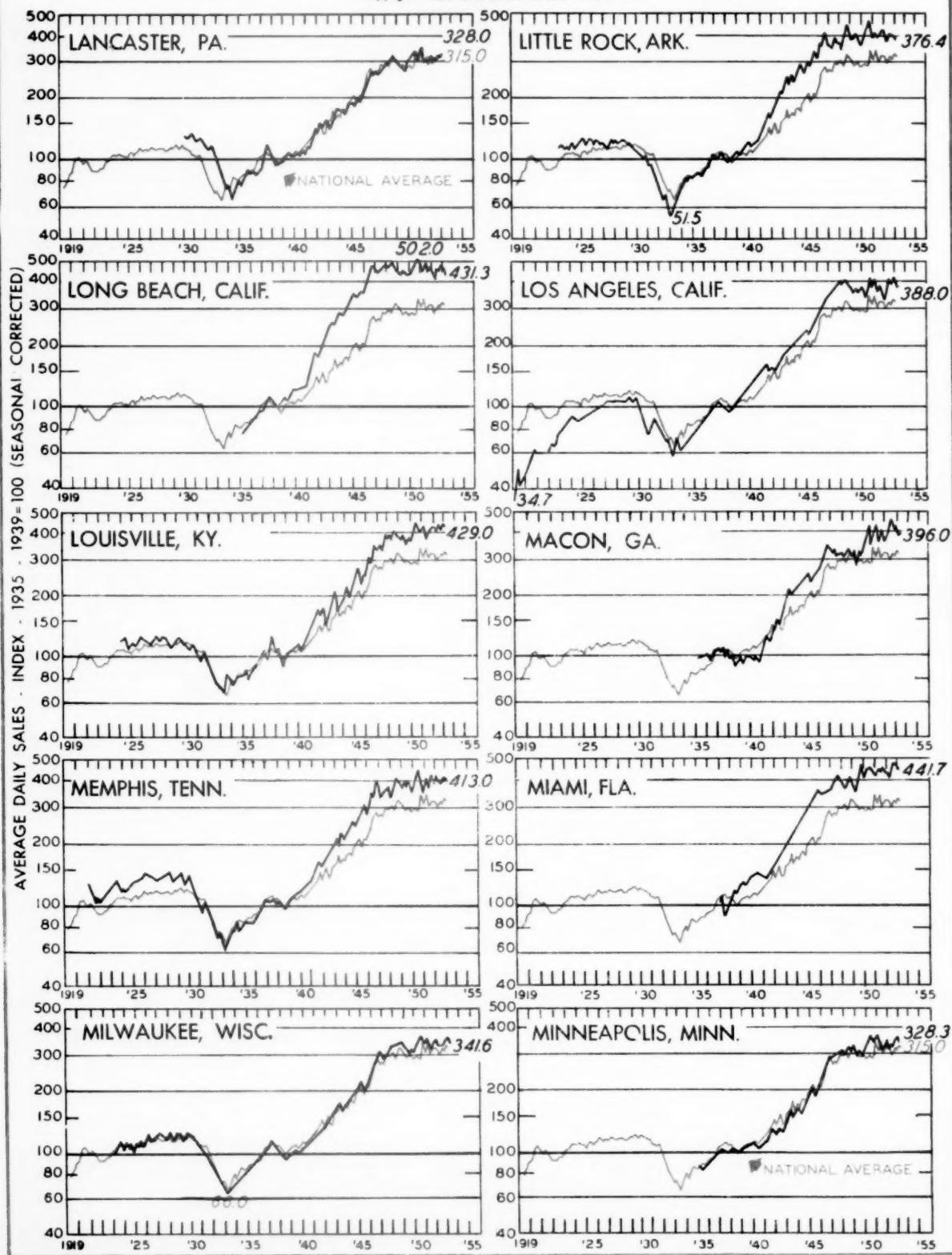
DEPARTMENT STORE SALES IN PRINCIPAL CITIES

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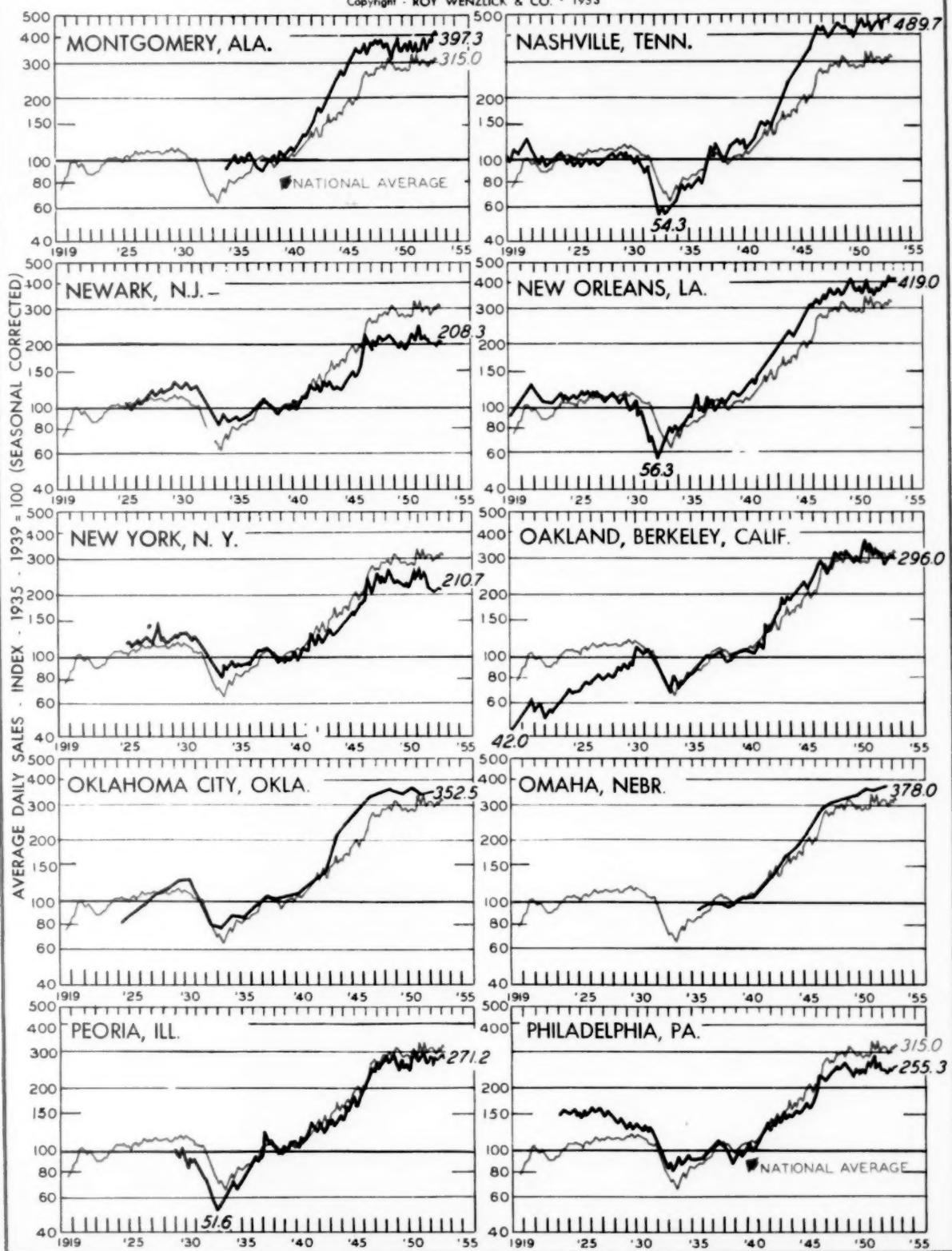
DEPARTMENT STORE SALES IN PRINCIPAL CITIES

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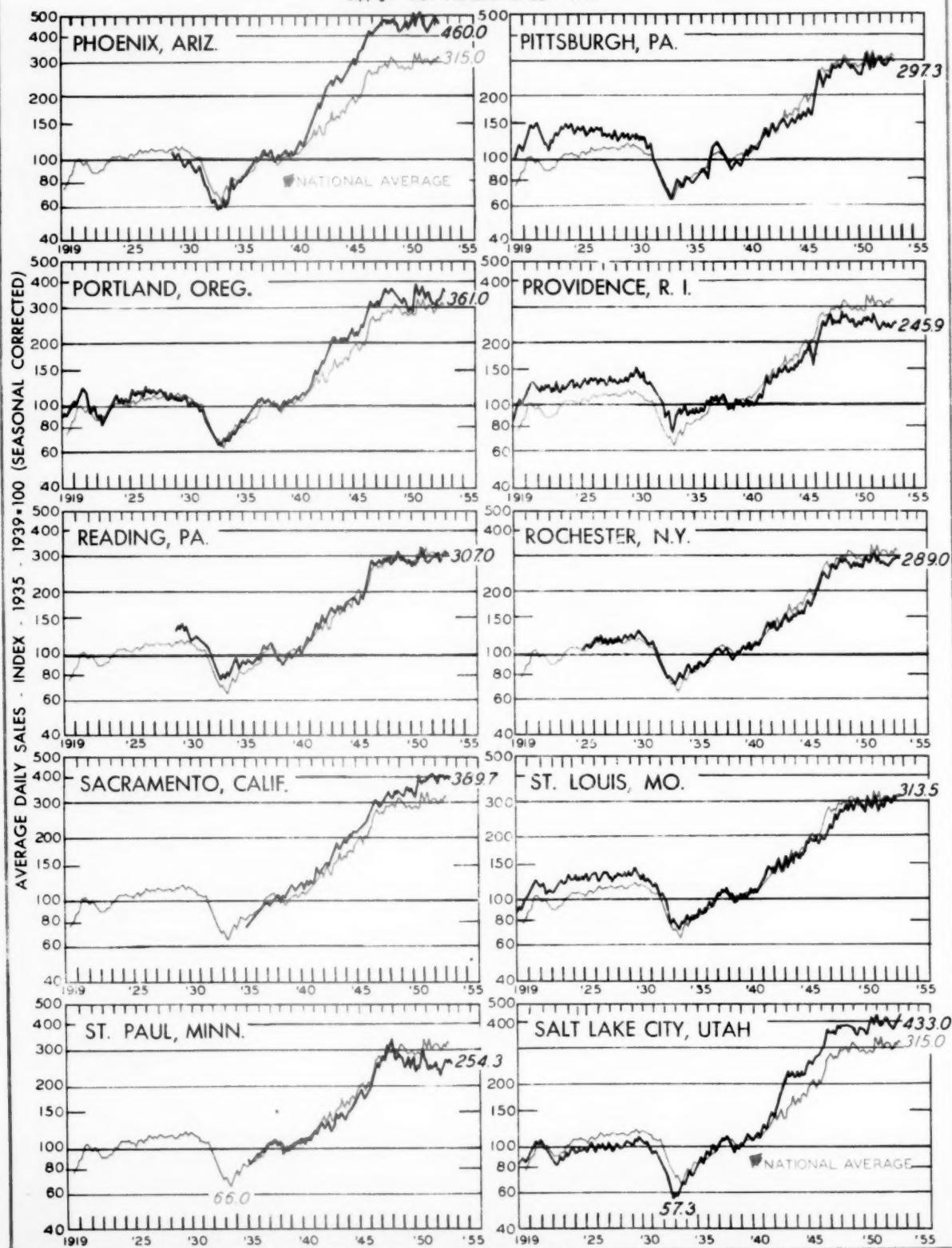
DEPARTMENT STORE SALES IN PRINCIPAL CITIES

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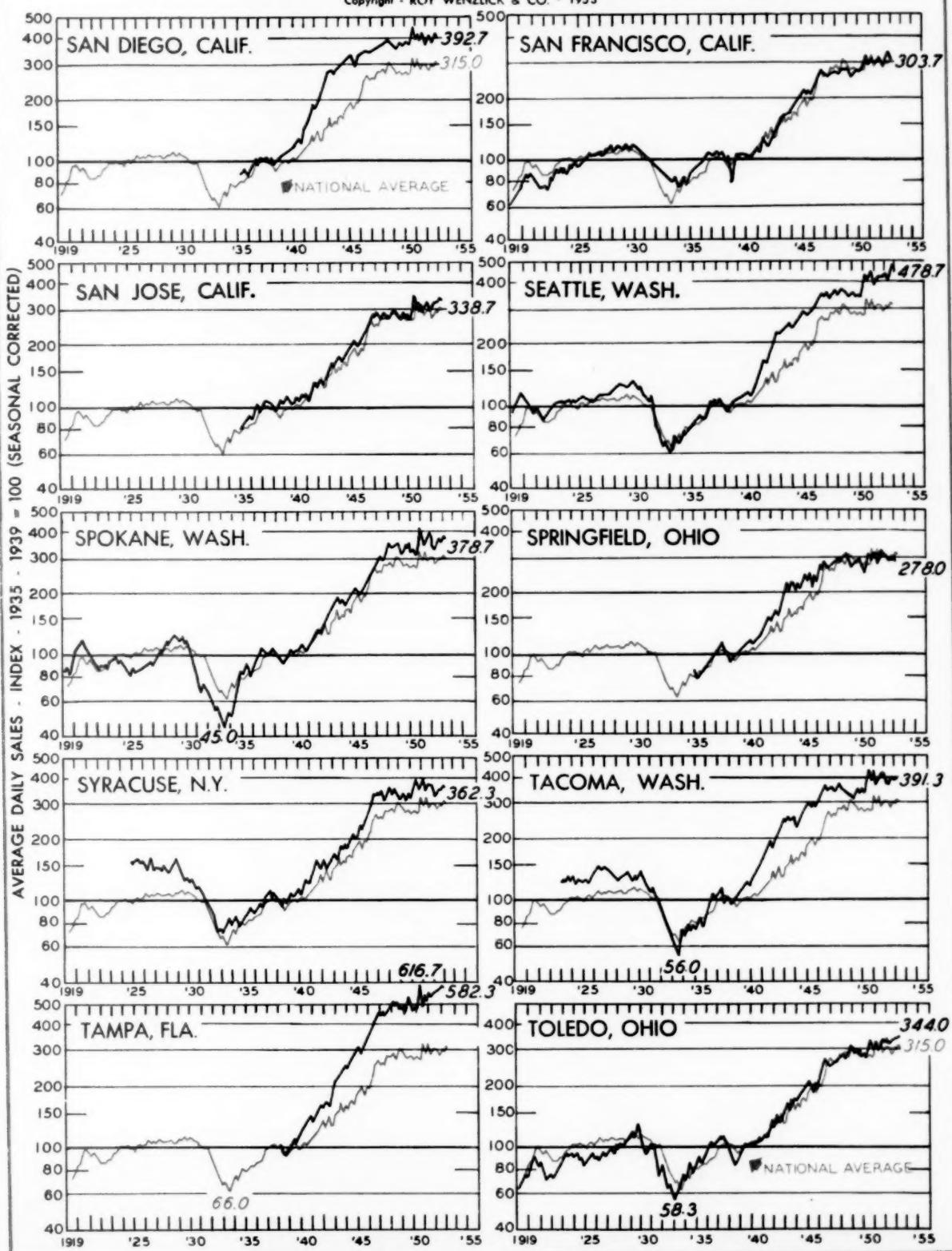
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